DOING BUSINESS IN CANADA

TAXATION
INCOME, BUSINESS, PROPERTY

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE
OTTAWA, CANADA

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FOREWORD

The information in this booklet deals with the incidence of taxation on income, business and property. It is intended as a guide in this field of taxation and, as such, refers only to the basic principles involved. Every effort has been made to accurately reflect the legislation in force at the time of preparing the material.

Since the law contains a considerable amount of detail, however, and since changes at all levels occur from time to time, it is suggested that an enquirer consult with relevant authorities or lawyers of his choice, or both, when seeking precise and detailed advice on a given problem.

While the Department of Industry, Trade and Commerce is prepared to assist manufacturers requiring guidance in these matters, specific information can be obtained from any one of the district taxation offices of the Department of National Revenue located throughout the country. Head Office of the Department of National Revenue is in Ottawa.

Other publications available in the "Doing Business in Canada" series are:

The Canadian Environment

Forms of Business Organization

Canadian Customs Duties

Taxation — Sales, Excise, Commodity

Labour Legislation

Construction and Equipment Standards

Federal Incentives to Industry

Patents, Copyrights and Trade Marks

Tariff Preferences for Canadian Goods Abroad

Also available:

Financing Canadian Industries

Revised 1972

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FEDERAL-PROVINCIAL ARRANGEMENTS

There are three levels of taxation in Canada — federal, provincial and municipal. The federal government levies both direct and indirect taxes, the most important of which are the corporate and personal income taxes and the manufacturers' sales tax. The provincial governments levy direct taxes, such as income tax, retail sales tax, and succession duties. Municipalities function under the guidance of provincial legislation and impose direct taxes on real estate, water consumption and places of business.

Generally speaking, all individuals and corporations resident in Canada are liable to federal and provincial income taxes. These taxes are applied on income received or receivable during the taxation year from all sources inside or outside Canada, less certain deductions. Similarly, individuals and branches of foreign companies carrying on business in Canada are liable to Canadian income taxes on profits derived from these business operations.

Federal provincial tax agreements, by which the federal government collects and remits to the provinces specified taxes, normally are re-negotiated every five years. Under the most recently expired arrangement, the federal personal and corporate income tax rates were reduced (abated) by certain percentages to make room for provincial levies. A number of tax reform amendments were passed in 1971. However, most of them became effective from the beginning of 1972. A new personal income tax rate structure was introduced which is not designed to be abated in the previous way. On the other hand, federal corporate income taxes are still abated by 10 per cent for all provinces. Federal estate taxes do not apply in the case of a death occurring after 1971, but all provinces except Alberta now impose succession duties.

Income taxes imposed by the provinces are collected by the federal government, except in the cases of corporate income taxes imposed by the provinces of Quebec and Ontario, and personal income tax imposed by Quebec. The federal government also collects provincial succession duties for all provinces except Quebec, Ontario, Alberta and British Columbia.

FEDERAL CORPORATION INCOME TAX

Generally speaking, all companies resident in Canada are liable to federal income tax. The tax is applied upon income received or receivable during the taxation year from all sources inside or outside of Canada less certain deductions permitted by the Income Tax Act.

"Income" is not defined in the federal Income Tax Act. The act merely states that it includes income for the year from all businesses, properties, offices and employment. One half of capital gains must be included in income, however. Detailed instructions are not given on how to compute income. It is left to management, within certain broad limits, to employ the method best suited to the particular business operation, assuming, of course, that the methods are in accordance with normal usage.

The amount of tax payable is calculated by applying statutory rates of tax to taxable income which is the amount remaining after making certain deductions from income. The general rate is 50 per cent, reducing by one percentage point annually to 46 per cent in 1976. However, this rate is reduced by a small business incentive and partially offset by refundable tax provisions for investment income of private corporations. It is further reduced by the provincial abatement of 10 per cent.

Beginning January 1, 1973, corporations will pay a special rate of 40 per cent on income derived from manufacturing and processing activities. Companies seeking guidance on how to distinguish manufacturing and processing income from income from other sources should contact the Department of National Revenue Taxation.

Small Business Incentive

The legislation provides a low rate of corporate tax aimed at direct assistance to small business. The rate is 25 per cent of the first $50,000 of business income (net profit) of Canadian-controlled private corporations

earned in any one year, to a limit of $400,000 of taxable income accumulated after the 1971 taxation year. It is not available on investment income or to public corporations, their subsidiaries, or foreign-controlled corporations. As of January 1, 1973, this rate will be reduced to 20 per cent for income derived from manufacturing and processing operations.

A public corporation is defined as a corporation whose shares are listed on a prescribed Canadian stock exchange, or a corporation that meets certain conditions and either is designated by the minister to be, or elects to be, a public corporation. A private corporation is any corporation that is not a public corporation or that is not controlled by one or more public corporations.

The legislation reserves the benefit of the incentive to small corporations by providing that as soon as $400,000 of taxable income has been accumulated, the low rate will no longer be available. The legislation also stipulates that income taxed at the low rate must be used in the business or paid out as dividends which will be taxable to shareholders. Otherwise the benefits of the low rate on that income will be eliminated. This limits the incentive to smaller private Canadian-controlled corporations that use the tax savings to invest in their businesses or to pay dividends to shareholders. To ensure that the low rate is not applied to more than $50,000 of business income by a group of related corporations, there is a set of rules for determining "associated" companies. Briefly, one corporation is associated with another if one of the corporations controls the other, or if both of the corporations are controlled by the same person. The maximum annual amount of $50,000 to which the low rate can be applied must be allocated within the group of companies, and the accumulated taxable income limit of $400,000 will be determined for the group as a whole.

Investment Income

For private corporations, investment income other than dividends (such as interest, rent, royalties and one-half of capital gains) is subject to the normal rate of corporate tax, 25 percentage points of which will be refunded to the corporation when dividends are paid to shareholders. The refund will not apply to intercorporate charges where the payor and the recipient corporations are associated. On dividends received from portfolio investments (where the ownership interest is 50 per cent or less) the tax is 33$^1/_3$ per cent, which is fully refunded to the corporation when dividends are paid to shareholders. Dividends received by a private corporation from a subsidiary corporation (more than 50 per cent ownership interest) are tax-exempt, with two exceptions. If they are paid out of designated surplus they are taxed in the hands of the recipient. If a dividend paid by a controlled corporation (more than 50 per cent ownership) results in that controlled corporation qualifying for a refund of tax, the receiving corporation pays a special fully refundable tax equal to the refund. This rule is necessary to ensure that the refundable tax is in fact paid on investment income flowing through more than one corporation.

A further feature is that one-half of capital gains realized by private corporations may be distributed tax-free to shareholders. When viewed together with the refundable tax provisions and dividend tax credit, this will result in approximately the same total taxes as if the shareholders had personally received the capital gain.

Dividends received by public corporations are exempt from tax, and other investment income is taxed at the general rate.

Special rules are provided for the taxation of special purpose companies such as mutual fund corporations, life insurance companies and co-operatives. A corporation that qualifies as an "investment corporation" pays tax at a rate of only 25 per cent. This rate is also reduced by the provincial abatement.

Deductions

The Income Tax Act permits certain deductions in computing "income" and certain additional deductions in computing "taxable income." These notes do not distinguish between the two types of deductions. Among the deductions normally allowable are expenditures incurred for the purpose of earning income, including interest on money and rent for property used in earning income; reserves for doubtful debts; bad debts; contributions to employee pension funds; payments for unemployment insurance and workmen's compensation; expenditures on scientific research; patronage dividends; employer's contributions under profit-sharing plans. Certain

special deductions, e.g. drilling and exploration expenditures and depletion allowances, are allowed in respect of income from oil wells, gas wells and mines. More details on this latter subject can be found in a publication issued by the Department of Energy, Mines and Resources, Ottawa, entitled "Summary Review of Federal Taxation and Legislation Affecting the Canadian Mineral Industry."

Expenses incurred in the course of issuing or selling shares of its capital stock or in the course of borrowing money used in the company's business (other than amounts in respect of commissions, bonus payments and discounts) are also allowed as a deduction in computing the income of a company. Full deduction will be allowed for interest paid on money borrowed to buy shares in other corporations. One half of capital losses may be deducted from the capital gains included in income.

Of particular importance to a new company is a provision whereby profits and losses may be offset over a seven-year period. Business losses may be carried back one year or forward five years and deducted in computing taxable income.

Other items generally deductible are dividends received from taxable Canadian corporations; property taxes paid to municipalities; and taxes paid to provincial governments on income from mining operations.

One special measure excludes from taxation the income of a new mine during its first 36 months of production. After 1973 this provision will be replaced by immediate write-off of capital equipment and facilities to the extent of income from the mine.

Expenditures not allowable as deductions include membership fees in recreational and social clubs; the expenses of a yacht, camp or lodge; sums transferred to a reserve or sinking fund unless expressly permitted; and, in general, any expense or outlay not made for the purpose of earning income. Various entertainment and convention expenses are deductible within limits. Charitable donations are deductible up to a maximum of 20 per cent of income.

Goodwill and other intangible assets such as costs of incorporation are now partially deductible. One half of their cost is deductible at a rate of 10 per cent on a declining balance. One half of the proceeds of sale of such assets must be included in income.

Capital Cost Allowances

A capital cost allowance is a deduction permitted in respect of the cost of depreciable capital assets acquired for the purpose of producing income. Capital cost allowances are sometimes referred to as depreciation allowances. Assets are grouped into classes for purpose of capital cost allowances and each class carries a maximum rate of annual write-off, which is applied on the diminishing balance basis.

The maximum rates of capital cost allowance for classes of greater interest are as follows:

	Percentage
Frame buildings and component parts	— 10
Other buildings and component parts	— 5
Automobiles, trucks, etc.; mining machinery, equipment and buildings	— 30
Certain contractors' equipment for excavating or compacting earth, rock, concrete or asphalt	— 50
Production machinery	— 20
Sundry, not included in specific groups	— 20
Dies, jigs, patterns; tools costing less than $100	— 100

Machinery and equipment purchased after May 8, 1972 to be used for the manufacturing or processing of goods for sale or lease in Canada may be fully written off in two years with a maximum of 50 per cent of cost being claimable in the taxation year of acquisition.

Capital cost allowances are ordinarily calculated on a diminishing balance rather than a straight-line principle. For example, where a depreciable asset cost $10,000 and has a depreciation rate of 5 per cent, the amount deductible at the end of the first year would be $500 (5 per cent of $10,000), at the end of the second year $475 (5 per cent of $9,500), at the end of the third year $451.25 (5 per cent of $9,025), etc. The capital cost of new acquisitions of property is added to the balance in its class and the proceeds of disposition of property (except any part thereof in

excess of original capital cost) is deducted from the balance in its class. Where property is disposed of for more than the amount to which it has been written down by capital cost allowances, the excess allowances are "recaptured" through an addition to income or by an adjustment to the undepreciated balance for the class of property. Special rules limit deductions for losses created by a claim for capital cost allowance on real estate rental property.

A lesser amount than the maximum may be claimed as a deduction if the taxpayer so chooses. It might be mentioned also that the amount claimed need not conform to the depreciation deducted in computing profits as shown on the financial statement to shareholders.

Accelerated depreciation (full write-off in two years) is allowed in respect of structures and equipment acquired in the period April 27, 1965 to December 31, 1974 to prevent water pollution, and in the period March 13, 1970 to December 31, 1974 to prevent air pollution.

A taxpayer who does not elect to receive a grant under the Training on the Job Program may deduct 60 per cent of approved wage costs incurred in the period after October 1971 and before April 1974. This deduction is in addition to the normal deduction for wages.

There are special capital cost allowances available to firms qualified under the Area Development Program which locate or expand in "designated areas." Further details on this program are available from the Department of Regional Economic Expansion, Ottawa, K1A 0M4.

Scientific Research

Income tax allowances for expenditures on scientific research have been growing in importance in recent years. The Income Tax Act allows 100 per cent write-off of current and capital expenditures (other than land) for scientific research in the taxation year during which they were incurred.

For this purpose, scientific research means a systematic investigation or search by means of experimentation or analysis in a field of science to acquire new knowledge; to devise and develop new products or processes; and to apply newly acquired knowledge in making improvements to existing products or processes. In some cases, expenditures to develop, test and evaluate a prototype are considered as scientific research expenditures. However, expenditures for purposes such as market research, sales promotion, quality control, or preparations of specifications are not recognized as scientific research expenditures.

In addition to the tax allowances, there are incentive programs for research and development. These are described in the booklet, "Federal Incentives to Industry", available from the Department of Industry, Trade and Commerce.

Foreign Tax Credit

A credit is allowed against the federal corporation income tax for taxes paid to a foreign government on foreign source income up to the amount of the federal income tax on such income. A credit must be calculated on income from each country.

Foreign taxes paid on business income in excess of the foreign tax credit available may be carried forward for five years. Taxes paid to political subdivisions of foreign countries are deductible from foreign income or included in the foreign tax credit calculation, depending on the treatment given these taxes in the foreign country.

Logging Tax Credit

A corporation may also deduct from federal tax otherwise payable an amount equal to two-thirds of a provincial tax on income from logging operations, not exceeding $6^2/_3$ per cent of the corporation's income from logging operations in the province.

Returns and Payment

A corporation is required to pay its tax in monthly instalments throughout its taxation year. Any balance of tax outstanding has to be paid by the last day of the third month following the close of the taxation year and the return for the year has to be filed by the last day of the sixth month following the close of the taxation year.

PROVINCIAL CORPORATION INCOME TAX

All provinces levy a tax on the income of corporations derived from operations carried on within their boundaries. The taxable income in a province is determined for provincial tax purposes on the same basis as for federal income tax in all provinces except Ontario and Quebec, and even in these two provinces the rules are similar to the federal rules.

Where a corporation carries on operations in more than one province, it must allocate its taxable income among the provinces concerned in accordance with prescribed rules which for most corporations are based on sales and wages in a province.

The rates of tax levied by the various provinces are as follows:

Province	**Percentage Rate of Tax on Taxable Income**
Newfoundland	13
Prince Edward Island	10
Nova Scotia	10
New Brunswick	10
Quebec	12
Ontario	12
Manitoba	13
Saskatchewan	11
Alberta	11
British Columbia	10

It will be noted that six of the provinces levy corporate income taxes in excess of the 10 per cent abatement allowed on the federal government tax.

OTHER CORPORATION TAXES

In addition to the federal and provincial corporate income taxes described above, there are some further general types of taxes which affect corporations.

One group of miscellaneous corporation taxes is the provincial taxes on paid up capital, miles of track, land transfer, place of business, registration fees, etc. The municipalities levy property and business taxes and licence fees. These are generally referred to as "corporation taxes" as opposed to corporation income taxes and are deductible in computing income for federal income tax purposes.

The Province of Quebec imposes a tax of one-fifth of 1 per cent on paid-up capital of corporations and Ontario levies a similar tax at the rate of one-tenth of 1 per cent.

The provinces of Quebec and Ontario have a place-of-business tax. In Quebec, the tax is generally $50 but is reduced to $25 when the paid-up capital is less than $25,000; in the case of loan companies, the tax is $100 when capital paid up is $100,000 or more. In Ontario, the tax for each permanent establishment is the lesser of $50 or one-twentieth of 1 per cent of the paid-up capital of the corporation involved, but the total of the capital tax and the place-of-business tax cannot be less than $20. Ontario also imposes an office tax of $50 on every corporation that does not maintain a permanent establishment in the province but merely maintains a buying office, holds certain provincial licences or holds assets. A corporation that does not maintain a permanent establishment in Ontario, but is represented by a resident employee or agent who is not deemed to operate a permanent establishment of the corporation in the province, must pay an office tax of $50 or one-tenth of 1 per cent of its gross Ontario sales or revenue if less than $50,000, subject to a minimum tax of $5.

Both provinces levy special taxes on certain kinds of operations such as banks, railway, express, trust and sleeping-car, parlour-car and dining-car companies. In Ontario, these special taxes (except the tax payable by insurance corporations calculated on gross premiums) and the capital and place-of-business taxes are payable only to the extent that they exceed the corporate income tax otherwise payable.

The provinces of Ontario, Manitoba and Alberta levy a tax based on the price at which ownership of land is transferred. In Ontario, one-fifth of 1 per cent is imposed on the purchase price up to $25,000 and two-fifths of 1 per cent on anything in excess of that amount. In Manitoba the rate is 1 per cent. In Alberta, registration fees proportionate to the conveyancing services rendered are charged

and, in the case of transfers and mortgages, the fees are assessed on the value of the land transferred or on the amount of the mortgage. In addition, there is an Assurance Fund fee charged on transfers and mortgages which guarantees titles in certain circumstances. British Columbia and Saskatchewan do not have a land transfer tax but have an equivalent in land title fees which are based on land value.

The property and business taxes and registration fees and licences are generally municipal levies. The property taxes are based on the assessed real value of the property (or as a percentage of the value in some centres) and assessment methods vary widely.

The business tax is levied directly on the tenant or the operator of a business. There are three general bases of assessment: a fraction of the property assessment, the annual rental value of the premises and the area of the premises.

Special provincial corporate taxes also exist for insurance companies and primary industries and on security transfers.

All the provinces impose a 2 per cent tax on the premium income of insurance companies derived from business transacted within the province.

Special taxes on specific primary industries are levied by the provinces. Taxes on the income of mining and logging operations are in addition to revenues derived by all of the provinces from rentals, royalties, stumpage dues and other charges imposed at varying rates on mineral and forest reserves. Nine of the ten provinces levy a tax or royalty on the income of firms engaged in mining operations.

The provinces of Quebec and British Columbia levy a tax on the income from logging operations of individuals, partnerships, associations and corporations engaged in the activity. In Quebec the rate is 10 per cent and in British Columbia 15 per cent on net income where in excess of $10,000 with the total income being taxable. In British Columbia 20 per cent of the tax is allowed as a deduction from provincial corporate income tax. In Quebec one-third is deductible from the provincial tax. Two-thirds of the provincial tax is deductible from federal income tax in both provinces.

Taxes are also applied on oil and gas resources by Ontario, Quebec and Alberta. Telephone companies are taxed on paid-up capital in Quebec.

A Security Transfer Tax is levied upon every change of ownership on any bond or share (sale, agreement for sale, transfer and assignment) effected in Ontario or Quebec. These taxes are imposed upon the vendor and are collected by the stock exchanges, bond dealers, transfer agents, trust companies and banks who assist in effecting the change of ownership. These taxes do not apply to obligations issued or guaranteed by the federal government, the provinces, municipal corporations and school boards within the respective provinces.

OTHER LEVIES AFFECTING CORPORATIONS

Canada and Quebec Pension Plans

The Canada Pension Plan is a compulsory government-operated program under which each contributor builds up a right to a pension related to his earnings up to a certain level. This graduated benefit will supplement the universal old age security pension which is paid out of tax revenues. It operates throughout the country except in the Province of Quebec where a similar pension plan is operated by the government of the province. Both plans have disability and survivor benefits. The maximum amount contributed by an employee in 1972 is $88.20. The employee's contribution is matched by a contribution by his employer.

Unemployment Insurance

A national program of unemployment insurance operates in Canada. Amendments in 1971 made substantial changes. The program now provides benefits to qualified persons who are temporarily without work, including those unable to work because of sickness, disability or pregnancy. The program is administered by a federal commission appointed for this purpose. It is generally financed by contributions from both employees and employers. But when the national unemployment rate exceeds 4 per cent, or in certain circumstances when the regional unemployment rate exceeds the national unemployment rate, the federal government bears costs arising on

these accounts. For 1972, the amount of an employee's contribution is calculated weekly at a rate of 0.9 per cent of earnings to a maximum of $1.35 per week. The employer rate of contribution for an employee varies according to the "risk of lay-off factor" which varies according to the type of industry of the employer. Both the employee and the employer contribution rate may be scaled down if the employer provides his employees with a sickness and disability insurance plan meeting specific standards. Furthermore, a reduced scale of contributions operates for groups of employees who were brought into the unemployment insurance plan for the first time in 1972. The reduced scale of contributions applies for 1972, 1973 and 1974 and the rates are respectively 40, 60 and 80 per cent of the contribution otherwise payable.

As premium scales are subject to annual review, it is recommended that employers obtain current information from the Department of National Revenue Taxation, Ottawa K1A 0L5, or from the nearest district taxation office.

Workmen's Compensation

Legislation in force in all provinces provides compensation for personal injury suffered by workmen as a result of industrial accidents. In general, these provincial statutes establish an accident fund administered by a board to which employers are required to contribute at a rate proportional to the hazards of the industry.

Other

Corporations must also consider other miscellaneous items such as withholding tax on interest and dividends paid to non-residents, sales and excise taxes and customs duties. The first is dealt with in the applicable section of this booklet while the remaining three levies are explained in separate publications of the "Doing Business in Canada" series. Firms with foreign connections are treated separately in this booklet due to the variety of special arrangements.

PERSONAL INCOME TAXES

Federal

Every individual resident in Canada at any time in a year is liable for personal income tax on his income for the year from all sources inside or outside Canada. The determination of whether a person is resident is a question of fact, but any individual who stays in Canada for 183 days, or more, in a year is deemed to have been a resident in that year. Special rules, described later in this booklet, apply to those who reside abroad for part of the year. Income includes income from a business; wages and salary; dividends; director's fees; the interest element of annuity payments; interest; alimony received; income from estates; payments based on the use of real or personal property; one-half of capital gains; payments from certain income maintenance plans; adult training allowances; unemployment insurance benefits; amounts contributed on an employee's behalf to a public medical care plan; and scholarships, fellowships and bursaries in excess of $500.

A number of personal exemptions and other deductions are allowed in computing taxable income. An unincorporated taxpayer carrying on business may deduct, in general, the same type of expense as the corporate taxpayer, i.e. those incurred for the purpose of earning business income. The personal exemption for a single person without dependents is $1,500 and for a married person it is $2,850. The extra exemption of $1,350 allowed to a married person is reduced by one dollar for each dollar of the spouse's income in excess of $250. Those who have dependents may deduct a further $300 for each dependent child under age 16 or $550 if the child is age 16 or over. The $300 exemption is reduced by one dollar for each two dollars of the dependent's income in excess of $1,000. The $550 exemption is reduced by one dollar for each dollar that the dependent's income exceeds $1,050. Thus there will be no deduction for dependents who have sufficient income ($1,600) to be taxable. Students, their parents or spouses may claim a deduction equal to $50 per month for each month of full-time attendance at a post-secondary institution including universities, community colleges and vocational schools. Students are allowed to deduct tuition fees paid for recog-

nized courses to gain a university degree or a high school matriculation certificate or to acquire a technical skill to improve their qualifications for employment or business.

Two types of income averaging are available to taxpayers. The first is a general averaging system which applies each year starting in 1973. An automatic calculation will be done by the Department of National Revenue when a tax return shows income 10 per cent higher than the preceding year and 20 per cent higher than the average of four immediately preceding years. The second is forward averaging which permits a taxpayer to spread the taxation of an unusual lump-sum receipt over future years by using it to purchase an immediate annuity called an "income-averaging annuity." The lump-sum receipt is deductible immediately, but the annuity payments are taxable in the years received.

Other provisions in the Income Tax Act cover deductions for medical expenses, charitable donations, union and professional dues, moving expenses, child care, employment expenses and contributions to pension plans. In lieu of claiming deductions for charitable donations and medical expenses, an individual may claim a standard deduction of $100. A taxpayer who has claims for these items that aggregate more than $100 may file receipts and claim for them separately. Deductions for charitable contributions may not exceed 20 per cent of income. Only medical expenses in excess of three per cent of the taxpayer's income may be deducted. Employees may deduct up to $2,500 per year in computing income as contributions into registered pension plans. Individuals who are not members of registered pension plans may deduct amounts set aside to provide a future income under registered retirement savings plans to a limit of $4,000 or 20 per cent of earned income. Child care expenses are deductible up to $500 for each child under age 14 with a maximum of $2,000 per family. A general deduction for employment expenses is permitted up to three per cent of income from an office or employment to a maximum of $150 a year. No receipts are necessary. The employment expense deduction is not permitted to salesmen who may deduct expenses incurred in earning commissions. All workers at distant work sites may receive tax-free from their employers amounts covering expenses such as transportation, board and lodging.

Income tax on salaries and wages is deducted by the employer according to rates prescribed in deduction tables. The total of these deductions over a year should approximate 100 per cent of the total tax payment due April 30 of the following year. The balance to be paid or refunded is calculated when a return for the year is filed. Taxpayers with more than 25 per cent of their income from sources not subject to deductions at source must pay tax by quarterly instalments.

The amount remaining after deducting the aggregate of exemptions and deductions from income is the taxpayer's taxable income.

The amount of tax is determined by applying a progressive schedule of rates to taxable income. This schedule of rates starts at 17 per cent on the first $500 of taxable income and increases to 47 per cent on taxable income in excess of $60,000.

For 1972, tax otherwise payable is reduced by three per cent. In addition, the rate of tax on the first $500 of taxable income will be reduced each year after 1972 until it becomes 6 per cent in 1976.

The table in Appendix "A" shows the federal personal income tax schedule.

Provincial

All provinces levy a tax on the income of individuals who reside within their boundaries or who earn business income therein. Investment income and salary and wages are allocated to the province where the individual resided on the last day of the calendar year or on his last day of residence in Canada. Where non-residents are employed or carry on business in Canada, their income for provincial income tax purposes is allocated to the province where they were employed or carried on business. The federal Income Tax Regulations outline the rules for allocating income to provinces when individuals earn business income in more than one province.

In all provinces except Quebec the federal government administers and collects provincial personal income taxes. In these nine provinces the provincial income tax is a certain percentage of the federal tax, which may change annually. For 1972 the rates are:

Newfoundland	36 per cent
Nova Scotia	38.5 per cent
Prince Edward Island	36 per cent
New Brunswick	41.5 per cent
Ontario	29.585 per cent
Manitoba	42.5 per cent
Saskatchewan	37 per cent
Alberta	36 per cent
British Columbia	30.5 per cent

The province of Quebec administers and collects its tax on individual incomes. An individual who earns income in that province may deduct 24 per cent of his federal tax attributable to such income. This abatement of tax is in recognition of the fact that Quebec entirely finances certain programs which are partly financed by the federal government in other provinces.

In general, the rules for computing taxable income in Quebec are the same as the federal personal income tax rules. However, there are certain exceptions to be noted. Single persons with incomes of less than $2,000 and married persons with incomes of less than $4,000 are exempt from tax, but the personal exemptions of persons whose incomes exceed these amounts are the same as the federal exemptions of $1,500 and $2,850 respectively. No deduction is allowed for dependent children under age 18 years. The rate schedule for purposes of determining the amount of provincial tax payable starts at 10 per cent on the first $2,000 of taxable income and progresses to 28 per cent on taxable income in excess of $60,000.

Individuals who reside in the Yukon or Northwest Territories, or who reside outside of Canada but are deemed to be resident in Canada for tax purposes (such as government employees posted outside the country), must pay an additional tax of 30 per cent of their tax otherwise payable. This tax is intended to correspond in an approximate way to the income tax imposed by the provinces on their residents.

Appendix "B" contains examples of federal and provincial taxes payable under various conditions.

Partnerships

Partnerships are not taxed as separate entities. Instead, individuals are taxed on their share of the income of the partnership as if they had personally received the income. The computation of income, however, is made at the partnership level. Capital cost allowances are claimed by the partnership. There are special rules for partnership interests for capital gains tax purposes.

Dividend Tax Credit

An individual with taxable dividends from a Canadian corporation is entitled to a dividend tax credit. The individual increases the amount of his dividends by one-third and takes 20 per cent of the resultant figure as the allowable credit. For example, the tax credit on dividends of $300 is 20 per cent of $400 or $80. In calculating his tax, however, he must include the $400 figure in his income, not just the $300.

Foreign Tax Credit

Residents of Canada are generally taxable on their world income, even though part of this income may have been taxed in a foreign country. To ensure that foreign income is not subject to double taxation, the foreign tax credit provisions allow foreign taxes to offset the Canadian tax otherwise payable on such income. Foreign taxes paid on business income in excess of the foreign tax credit available may be carried forward for five years. Taxes paid to political subdivisions of foreign countries are deductible from foreign income or included in the foreign tax credit calculation, depending on the treatment given these taxes in the foreign country. After 1975, the foreign tax credit on investment income of individuals will be limited to 15 per cent; any excess over 15 per cent will be treated as an expense.

OTHER LEVIES AFFECTING INDIVIDUALS

Canada and Quebec Pension Plans

As described in a previous section of this booklet, employees contribute to these pension plans in relation to their earnings, up to a maximum of $88.20 in 1972. Self-employed persons contribute twice this amount.

Unemployment Insurance

All employees are covered by unemployment insurance. Details were outlined earlier

in this booklet. The maximum employee contribution in 1972 is $1.35 per week. Premium scales are subject to annual review.

Hospital Insurance

A hospital insurance plan is in operation in each of the 10 provinces. In all provinces but Quebec, the program is a joint federal-provincial undertaking where approximately half of the cost of hospitalization for patients who are participants under the plan is met by the federal government and the remainder by the province. In Quebec the program is entirely a provincial undertaking. The share of cost normally carried by the federal government in the other provinces has been assumed by the Province of Quebec in exchange for fiscal compensation by way of a larger occupation of the field of personal income tax. Some provinces finance their share of the cost of the program by taxes and other provinces require the deduction of a monthly premium from the wages of their residents as a contribution or premium for the plan. In such provinces, self-employed people must also pay the premium directly if they wish to be covered by the plan. In some provinces, the proceeds of a retail sales tax are earmarked in whole or in part for the support of the hospital plan.

Medicare

A national medicare plan involving the joint participation of federal and provincial governments now operates in all provinces. As in the case of hospital insurance, this program requires approximately a 50 per cent financing contribution from each level of government. In some provinces premiums must be paid for this plan; in others the provincial share is raised through taxation.

CAPITAL GAINS

Legislation passed in 1971 provides that one-half of capital gains will be included in income and taxed at normal personal or corporate rates. Taxpayers may deduct one-half of capital losses against one-half of capital gains; individual taxpayers may also deduct up to $1,000 of capital losses against other income. The deductions may be made in the current year, preceding year or any number of subsequent years until losses are fully absorbed. Gains will generally be taxable and losses deductible when a taxpayer sells an asset, and also when he makes a gift of an asset, or at his death except when the gift or bequest is to his spouse, in which case the gain or loss is not accounted for until the spouse disposes of the asset.

Any gain realized by a taxpayer in selling his home and up to an acre of surrounding land will be exempt. No gain realized on any item of personal property will be taxed unless the asset's selling price is more than $1,000.

There are special rules for gains on assets held at the start of the system as well as for deferral of gains in cases of destruction or expropriation, sales of property to a controlled corporation and certain corporate reorganizations.

The federal estate and gift tax does not apply to the estates of persons dying or to gifts made after 1971. Succession duties and gift taxes of a generally uniform nature are now levied by all provinces except Alberta.

TAX TREATMENT OF NON-RESIDENT COMPANIES

Canadian Subsidiaries of Foreign Business Firms

Where a non-resident company is carrying on business in Canada through a subsidiary company resident in Canada, the subsidiary company is treated the same as any other Canadian company. The total income of the subsidiary, whether earned in Canada or elsewhere, is subject to income tax in Canada. The subsidiary may claim a credit for taxes paid to a foreign country on the same basis as any other Canadian company.

Methods of computing income and calculating deductions are the same as those outlined in the section dealing with corporate income tax, and the rate of the income tax is the same as for any other company resident in Canada except that the small business

incentive is not available to foreign controlled corporations. Generally speaking, transactions between foreign companies and Canadian subsidiaries are required to be conducted on the same basis as would apply if the companies were not related.

Canadian Branches of Foreign Companies

Business dealings under circumstances considered to be "carrying on business in Canada" render a non-resident company liable to Canadian income tax on profits derived from such transactions.

Non-resident companies "carrying on business in Canada" are liable to federal income tax in the same manner as a Canadian company. The essential difference is that a non-resident company is liable to tax only on its income earned in Canada while a resident corporation is liable to tax on its total income from all sources both inside and outside Canada.

Income earned in Canada is, in principle, determined on the basis of separate accounts maintained by the Canadian office of the foreign company. Normally, if the accounts of the branch are so arranged that the income of the branch can be accurately determined, the federal taxation authorities will generally accept such accounts as the basis for determining income taxable under Canadian law. However, the department may rectify the accounts produced to correct errors and omissions or to re-establish the price or remunerations entered in the books at the value which should prevail between independent persons dealing "at arm's length."

Permissible deductions for purposes of determining taxable income are almost the same for a non-resident company carrying on business in Canada as for a resident Canadian business company. One exception is that dividends received by a non-resident company from Canadian companies are usually not deductible from income in arriving at taxable income.

The taxable income earned in Canada by a non-resident company is taxed at the same rate as that of Canadian resident companies except that the small business incentive will not apply. In addition, the profits remaining after deducting both federal and provincial taxes and an allowance for new, fixed and working capital investment in Canada are subject to a special 15 per cent tax. The rate of tax will be increased to 25 per cent after 1975 unless reduced by treaty. This tax tends to equalize the treatment of non-Canadian corporations that carry on business in Canada through a branch and those that carry on business through a subsidiary.

Two further items of interest to foreign companies with Canadian business activities are (1) the definition of "business" and the extended definition of "carrying on business in Canada" and (2) the resultant effect of double taxation agreements.

The Income Tax Act defines the term "business" to include a "profession, calling, trade, manufacture or undertaking of any kind whatsoever and includes an adventure or concern in the nature of trade, but does not include an office or employment."

"Carrying on business in Canada" is defined as follows: "Where, in a taxation year, a non-resident person — (a) produced, grew, mined, created, manufactured, fabricated, improved, packed, preserved or constructed, in whole or in part, anything in Canada, whether or not he exported that thing without selling it prior to exportation, or (b) solicited orders or offered anything for sale in Canada through an agent or servant whether the contract or transaction was to be completed inside or outside Canada or partly in and partly outside of Canada, he shall be deemed, for purposes of this Act, to have been carrying on business in Canada in the year."

Canada has double taxation agreements with the United Kingdom, the United States, France, Ireland, Australia, New Zealand, Sweden, Norway, Denmark, The Netherlands, Finland, West Germany, Japan, The Republic of South Africa, Jamaica, and Trinidad and Tobago. These agreements provide that an enterprise of one of the contracting countries may be taxed by the other country only on the industrial and commercial profits allocable to its permanent establishment in the latter country. "Permanent establishment" is defined as including mines and oil wells, farms, timber land, plantations, factories, warehouses, offices, agencies and other fixed places of business, but not subsidiaries.

Where an enterprise of one of the above countries carries on business in Canada through an employee or agent established here, who has general authority to contract for his employer or principal, or who has a

stock of merchandise from which he regularly fills orders which he receives, such an enterprise is deemed to have a permanent establishment in Canada and is, therefore, liable to Canadian taxation. However, the fact that an enterprise of one of the contracting countries has business dealings in Canada through a commission agent, broker or other independent agent, or maintains in Canada an office used solely for the purchase of merchandise, is not held to mean that the non-resident company has a permanent establishment in Canada.

Canada is vigorously expanding its network of tax treaties with other nations.

TAX TREATMENT OF NON-RESIDENT PERSONS

For tax purposes, non-resident persons may be divided very broadly into three main classes: (1) non-resident persons carrying on business in Canada; (2) non-resident persons working in Canada; (3) non-resident persons receiving income from other Canadian sources.

Carrying on Business in Canada

A non-resident taxpayer other than a corporation is liable to Canadian income tax for business dealings in Canada. Taxable income earned in Canada by a non-resident partner or sole proprietor is considered to be the part of his income for the year that may reasonably be attributed to the business carried on by him in Canada, minus applicable deductions.

A non-resident individual who is employed in Canada or who carried on business in Canada, either as a sole proprietor or a member of a partnership, pays tax at the graduated rates only on his taxable income attributable to the employment or business in Canada. If he has investment income from Canadian sources not related to the business carried on in Canada, this investment income is not combined with the income from employment or carrying on business in Canada but is subject to the tax on non-residents withheld under a separate part of the act. (This same rule applied to non-resident corporations carrying on business in Canada).

Working in Canada

A person who "sojourns in Canada in a taxation year for a period of, or periods the aggregate of which is, 183 days or more" is deemed to be a resident of Canada and is taxable on income from all sources both within and without Canada. A credit is allowed for taxes paid to a foreign government on income earned in such other country.

A non-resident who is present for less than 183 days is also liable to Canadian income tax but only on that part of his income received for work performed in Canada during his stay in this country. Such income is taxable in a manner similar to the taxation of income in the hands of resident Canadians. This person is allowed to claim a pro rata portion of a full year's personal exemption.

Liability may not arise in all cases, however. Exceptions are to be found in the double taxation agreements which Canada has concluded with many other countries.

Under these agreements, there are certain situations where the earnings of an employee temporarily resident in Canada are not subject to income tax in this country. However, the Department of National Revenue must have proof that the individual is exempt from such liability before permission is given to waive the deduction of tax at the source. Unless permission has otherwise been obtained, an employer is required to make authorized deductions on a monthly basis and forward the amounts so collected to the Receiver General of Canada. The tax deducted at the source and paid in by the employer will be refunded to the employee when he proves that he is entitled to exemption.

Receiving Income from Other Canadian Sources — Withholding Tax

Corporations or individuals resident outside Canada who receive income from Canadian sources are required to pay by deduction at source a withholding tax of 15 per cent (25 per cent in 1976 and thereafter unless otherwise provided by treaty) on payment of amounts credited to their accounts in respect of dividends, interest, income from a trust or estate, rents, alimony, royalties or similar payments, including payments (a) for the use in Canada of property; (b) for an invention

used in Canada; (c) for any trade name, franchise, design or other thing whatsoever used in Canada; (d) for certain payments for information concerning industrial, commercial or scientific experience; (e) for certain payments for services of an industrial, commercial or scientific character; and (f) for a management or administration fee or charge as defined in the Income Tax Act. Pensions and similar payments to non-residents are subject to withholding taxes at the general rate. Old Age Security pensions and $1,290 annually of Canada or Quebec Pension Plan benefits are exempt. A non-resident may elect to file a Canadian tax return, to calculate his tax on his Canadian pension and other similar income at graduated personal rates and thereby obtain a refund of excess withholding tax if appropriate.

Interest on government and government-guaranteed bonds is exempt from withholding tax for securities issued before 1976. There is a special exemption for interest payable to foreign charitable organizations, pension funds and similar institutions abroad. To qualify under this exemption, non-resident purchasers must be exempt from tax imposed by their country of residence. The rate of withholding tax on dividends paid by corporations having the required degree of Canadian ownership is five percentage points less than the general withholding rate. For details concerning the meaning of a "degree of Canadian ownership", see Appendix "C".

Until 1976, Canadian residents making payments as described in the first paragraph of this section to a non-resident company or individual must deduct 10 per cent or 15 per cent, as the case may be, from every such payment at the time the payment is made or credited to the foreign party. In 1976 and thereafter, the corresponding rates will be 20 or 25 per cent. The amount deducted must be remitted to the Receiver General of Canada. Whenever an agent of a non-resident corporation or individual receives payments from which the tax deduction has not been made, he is required to make such deduction before paying over to his principal.

FOREIGN TAXES ON INCOME EARNED IN CANADA

Apart from measures of relief from double taxation as found in the agreements which Canada has concluded with other countries, there are also specific provisions written into the income tax laws of these and most other countries with which a non-resident investor in a Canadian enterprise may be concerned. While these provisions vary from country to country, it can be generally stated that Canadian taxes on income earned by foreign investors are normally available as a full or partial credit against taxes payable thereon in the investor's country of residence. In some cases, Canadian tax payments can be considered as a deductible expense in calculating the investor's tax liability in his country of residence.

In all cases investors are well advised to discuss the subject of tax liability on income earned abroad with tax authorities in their country of residence.

APPENDIX "A"

FEDERAL PERSONAL INCOME TAX SCHEDULE

Taxable Income Bracket $	Tax	
	At the Beginning of the Bracket $	Tax Rate on Income in Bracket %
0 — 500	0	17
500 — 1,000	85	18
1,000 — 2,000	175	19
2,000 — 3,000	365	20
3,000 — 5,000	565	21
5,000 — 7,000	985	23
7,000 — 9,000	1,445	25
9,000 — 11,000	1,945	27
11,000 — 14,000	2,485	31
14,000 — 24,000	3,415	35
24,000 — 39,000	6,915	39
39,000 — 60,000	12,765	43
60,000 —	21,795	47

Notes: (1) For income earned in the province of Quebec, the federal tax is reduced by 24 per cent.

(2) For 1972, there is a special general reduction of 3 per cent from the above figures.

(3) The initial rate of 17 per cent will be reduced to 15 per cent in 1973, 12 per cent in 1974, 9 per cent in 1975, and 6 per cent in 1976.

APPENDIX "B"

CANADIAN PERSONAL INCOME TAX IN 1972

Status	Gross Income	Federal Income Tax	Provincial Income Tax	Total
	$	$	$	$
Single Taxpayer — no dependents	1,600	—	—	—
	2,000	56	18	74
	2,500	140	44	184
	3,000	227	71	298
	5,000	599	188	787
	8,000	1,235	388	1,623
	10,000	1,705	536	2,241
	20,000	4,756	1,495	6,251
	50,000	16,241	5,107	21,348
	100,000	38,580	12,131	50,711
Married Taxpayer — no dependents other than spouse	3,000	—	—	—
	4,000	157	49	206
	5,000	336	106	442
	8,000	935	294	1,229
	10,000	1,379	434	1,813
	20,000	4,297	1,351	5,648
	50,000	15,677	4,929	20,606
	100,000	37,964	11,937	49,901
Married Taxpayer — two children under age 16	4,000	54	17	71
	5,000	225	71	296
	8,000	813	256	1,069
	10,000	1,248	392	1,640
	20,000	4,093	1,287	5,380
	50,000	15,427	4,851	20,278
	100,000	37,690	11,851	49,541

Notes: (1) In calculating these taxes it has been assumed that all income is from salary or wages and all taxpayers take the standard deduction of $100 and the employment expense deduction. No account has been taken of other deductions such as for child care expenses, unemployment insurance contributions or the additional old age deduction.

(2) The federal tax shown is for income earned in any province except Quebec. The special 3 per cent reduction in 1972 has been taken into account. The provincial income tax is calculated at 30.5 per cent of federal tax otherwise payable (i.e., before the special reduction of 3 per cent for 1972). Some provinces impose tax at a rate higher than 30.5 per cent.

APPENDIX "C"

"DEGREE OF CANADIAN OWNERSHIP"

The following is an abridged version of the actual requirements which must be met if a company is to be regarded as having a "degree of Canadian ownership."

1. The company must be a resident of Canada.

2. (a) No less than 25 per cent of the company's issued and outstanding voting shares and no less than 25 per cent of the equity share capital of the company must be owned in Canada (by individuals and/or by Canadian controlled companies)

OR

(b) A class or classes of voting shares and a class or classes of equity shares representing no less than 50 per cent of the equity share capital of the company must be listed on a Canadian stock exchange and no more than 75 per cent of the equity share capital, nor more than 75 per cent of the voting shares must be owned abroad by one non-resident person or related persons.

3. At least 25 per cent of the directors of the company must be resident in Canada.

To qualify as having a degree of Canadian ownership in a particular taxation year, a company must have met requirements described above throughout any 60-day period in the 120-day period commencing 60 days before the first day of the year.

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